14 October 2022

Basic Materials | Building Materials

Building Materials

Building The Basics

Overweight (Maintained)

Stocks Covered	3
Rating (Buy/Neutral/Sell):	3 / 0 / 0
Last 12m Earnings Revision Trend:	Negative

- **Maintain OVERWEIGHT on the sector** due to the tight global aluminium supply, increasing global decarbonisation towards low-carbon content aluminium, and improvement in cement demand pending the roll-out of infrastructure projects post-elections. Our sector Top Pick is Press Metal (PMAH) given it is a proxy for low carbon-producing aluminium smelters in the ASEAN region and its proactive hedging policy which should shelter its realised ASP amid softness in London Metal Exchange (LME) prices. This report marks a transfer of coverage to Oong Chun Sung.
- **Aluminium.** LME aluminium prices have plunged to a low of USD2,155/tonne from its peak of USD3,878/tonne in March, representing a 44% correction. While the persistent hawkish tone by the US Federal Reserve (US Fed) is expected to weigh in on LME prices in the near term, LME inventory remains low at 332,175 tonnes as at end-September – likely attributed to the potential slowing down in demand as a result of global recession, and the zero-COVID policy in China, which has negatively impacted demand for aluminium.
- **Cement.** Monthly average cement production of 1.8m tonnes was higher than the pre-pandemic average of 1.6m tonnes as the sector saw a spike in demand following the full reopening of the economy. However, increasingly challenging operating conditions ie labour shortage and cost pressure since the second quarter has led to a downtrend in cement production. In July, monthly cement production stood at only 1.1m tonnes after peaking at 2.5m tonnes in February.
- **Accessing the aspect of ESG.** We did a blanket analysis on our ESG scores for companies under our coverage, which resulted in the upgrading of PMAH to 3.4 from 3.3 given its commendable effort in the environmental and social aspects (ie low green-house gas emission, zero workplace injuries and fatalities). We maintained our ESG score for Malayan Cement (LMC) despite an improvement in the "S" factor on the back of zero workplace fatalities as we felt that the ESG disclosure was inadequate given the lack of further deliberation from LMC compared to the other operations of its largest shareholder YTL Corp. We downgrade Cahya Mata Sarawak's (CMSB) ESG score to 2.3 from 2.4 as we think the governance aspect remains weak and should continue to be a key concern among investors.
- **Top Pick.** PMAH is our sector Top Pick on the back of tight global aluminium supply and being a low carbon-producing aluminium smelter. The recent switch of hedging policy (now 35% hedged, 65% unhedged from 65% hedged, 35% unhedged) may suggest the company's view of gaining a larger exposure to the unhedged position to benefit from the recovery in aluminium prices.
- **Key downside risk.** Decline in LME aluminium prices, higher-than-expected raw material costs, and lower-than-expected cement ASP.

Top Pick	Target Price
Press Metal (PMAH MK) – BUY	MYR5.73

Analyst

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ESG scores of basic materials companies under our coverage

Company	ESG scores
Press Metal	3.4
Malayan Cement	3.0
Cahya Mata Sarawak	2.3

Source: RHB

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-23F	P/B (x) Dec-23F	ROAE (%) Dec-23F	Yield (%) Dec-23F
Cahya Mata Sarawak	Buy	1.02	25.5	4.6	0.3	6.0	4.4
Malayan Cement	Buy	2.45	26.9	43.7	0.4	1.0	-
Press Metal	Buy	5.73	36.7	17.3	5.2	33.5	1.7

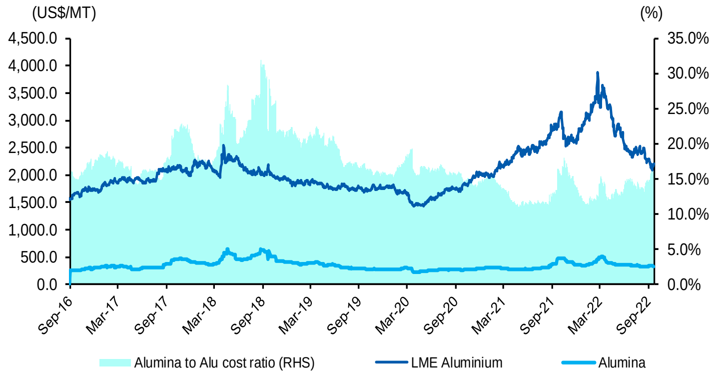
Source: Company data, RHB

Aluminium. LME aluminium prices have plunged to a low of USD2,155 per tonne from its peak of USD3,878 per tonne in March, representing a 44% correction. While the persistent hawkish tone by the US Fed is expected to weigh in on LME prices in the near term, LME inventory remained low at 332,175 tonnes as at end September – likely attributed to the potential slowing down in demand as a result of global recession, and zero-COVID policy in China, which has negatively impacted demand for aluminium.

Note that LME had recently put up a discussion paper to consider a potential ban on new supplies of Russian metals (including aluminium) to be delivered under its network of warehouses. Should this lead a ban being implemented, it could pose a potential upward reversion on LME aluminium prices. Recall back in Apr 2018, LME aluminium prices soared 25% during the month after the US imposed sanctions on Russian aluminium smelters (including the world's second largest smelter Rusal). Russia currently accounts for 6% of global aluminium production.

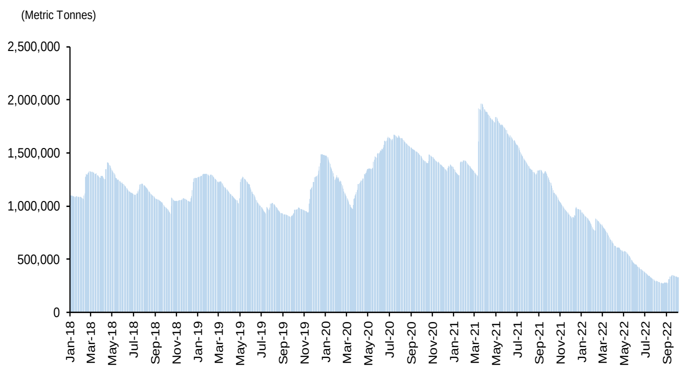
Apart from the potential sanction on Russia, the latest production cut from Europe's largest aluminium smelter (Aluminium Dunkerque Industries France announced to reduce its production by 22% starting 1 Oct) will further aggravate the current tight supply situation of global aluminium.

Figure 1: LME's aluminium price vs alumina price



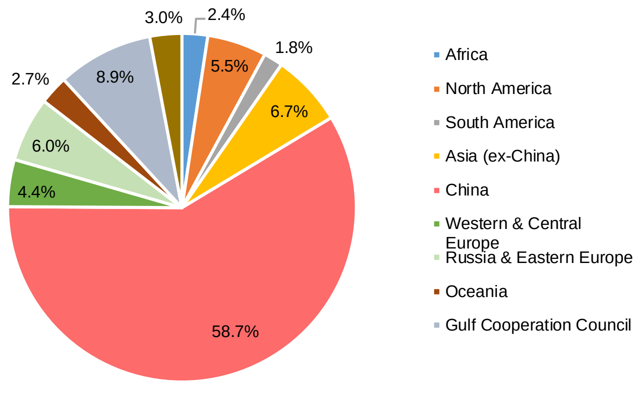
Source: Bloomberg, RHB

Figure 2: LME's aluminium inventory



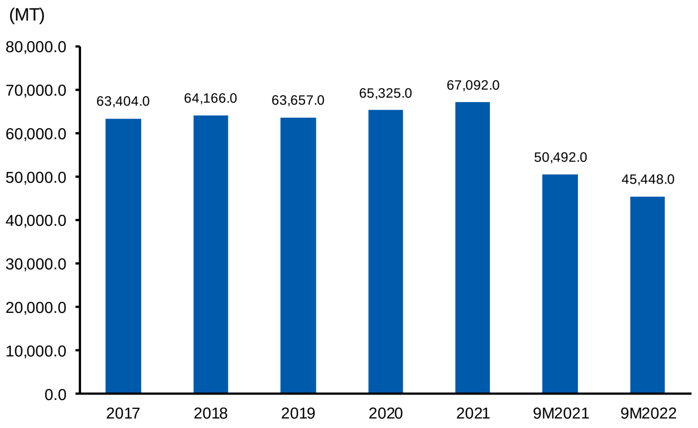
Source: Bloomberg, RHB

Figure 3: Global aluminium production by countries (as at Sep 2022)



Source: International Aluminium Institute, RHB

Figure 4: Global aluminium production



Source: International Aluminium Institute, RHB

Figure 5: Global aluminium production vs inventory

Total aluminium production ('000)	**2017**	**2018**	**2019**	**2020**	**2021**	**9M21**	**9M22**
Africa	1,679.0	1,668.0	1,643.0	1,605.0	1,590.0	1,184.0	1,083.0
North America	3,950.0	3,774.0	3,809.0	3,976.0	3,880.0	2,932.0	2,500.0
South America	1,378.0	1,164.0	1,079.0	1,006.0	1,163.0	864.0	812.0
Asia (ex-China)	3,951.0	4,415.0	4,395.0	4,140.0	4,499.0	3,349.0	3,042.0
China	35,905.0	36,485.0	35,795.0	37,337.0	38,837.0	29,369.0	26,692.0
Western & Central Europe	3,776.0	3,733.0	3,449.0	3,334.0	3,329.0	2,504.0	1,983.0
Russia & Eastern Europe	3,999.0	4,049.0	4,157.0	4,153.0	4,139.0	3,097.0	2,729.0
Oceania	1,817.0	1,917.0	1,916.0	1,912.0	1,888.0	1,414.0	1,217.0
Gulf Cooperation	5,149.0	5,331.0	5,654.0	5,833.0	5,889.0	4,375.0	4,039.0
others	1,800.0	1,630.0	1,760.0	2,029.0	1,878.0	1,404.0	1,351.0
Total production	**63,404.0**	**64,166.0**	**63,657.0**	**65,325.0**	**67,092.0**	**50,492.0**	**45,448.0**
YoY		*1.2%*	*-0.8%*	*2.6%*	*2.7%*		*-10.0%*
Composition							
Africa	*2.6%*	*2.6%*	*2.6%*	*2.5%*	*2.4%*	*2.3%*	*2.4%*
North America	*6.2%*	*5.9%*	*6.0%*	*6.1%*	*5.8%*	*5.8%*	*5.5%*
South America	*2.2%*	*1.8%*	*1.7%*	*1.5%*	*1.7%*	*1.7%*	*1.8%*
Asia (ex-China)	*6.2%*	*6.9%*	*6.9%*	*6.3%*	*6.7%*	*6.6%*	*6.7%*
China	*56.6%*	*56.9%*	*56.2%*	*57.2%*	*57.9%*	*58.2%*	*58.7%*
Western & Central Europe	*6.0%*	*5.8%*	*5.4%*	*5.1%*	*5.0%*	*5.0%*	*4.4%*
Russia & Eastern Europe	*6.3%*	*6.3%*	*6.5%*	*6.4%*	*6.2%*	*6.1%*	*6.0%*
Oceania	*2.9%*	*3.0%*	*3.0%*	*2.9%*	*2.8%*	*2.8%*	*2.7%*
Gulf Cooperation Council	*8.1%*	*8.3%*	*8.9%*	*8.9%*	*8.8%*	*8.7%*	*8.9%*
others	*2.8%*	*2.5%*	*2.8%*	*3.1%*	*2.8%*	*2.8%*	*3.0%*
Global inventory ('000, tonnes)	**2,091.0**	**2,260.2**	**1,974.2**	**1,836.9**	**1,559.3**	**1,787.5**	**906.5**
YoY		*8.1%*	*-12.7%*	*-7.0%*	*-15.1%*		*-49.3%*

Source: International Aluminium Institute, RHB

LME aluminium price outlook. In terms of our LME aluminium spot price forecast, we expect near term aluminium to trade between USD2,200-2,500 on the back of persistent lockdowns in China, which has dampened global demand. While supply constraints are expected to anchor aluminium prices in the near term, we expect the immediate turnaround on the demand side to be largely driven by increasing demand from aluminium packaging in the beverage industry, electric vehicle (EV), and aerospace sectors, whereas the wild card remains on China's decision to scrap its zero-COVID policy. All in, our 2022-2023 LME aluminium price assumptions are lowered to USD2,450 and USD2,300 from USD2,500 and USD2,550.

Geopolitical development. According to International Aluminum Organisation, monthly alumina production in China picked up 21% MoM in March to 6,280,000 tonnes. This comes after Russia turned to China as its alumina source following Australia imposing an alumina export ban on Russia due to the invasion of Ukraine in February. We understand there could be potential concerns on aluminium prices should Russia ramp up its aluminium production after managing to source alumina from China.

However, based on our computation, we understand that alumina produced in China is mostly consumed for its own aluminium production (Figure 6) given the fact of the 2:1 production ratio between alumina and aluminium. While China may continue to provide alumina to Russia based on geopolitical reasons, the former may still need to source its alumina elsewhere to fulfill the gap of its domestic aluminium production requirement. As such, we do not think the above development will pose a near-term risk to aluminium prices. In fact, we think the ramp up in the production of alumina from China would be positive to aluminium smelters given the potentially higher alumina supply in the market that would lower prices. Nonetheless, the upside risk for aluminium prices remains intact partly anchored by: i) Current industry tight supply, and ii) production cut from Europe's smelters that could further aggravated the industry tight supply dynamics.

Figure 6: China's aluminium and alumina production

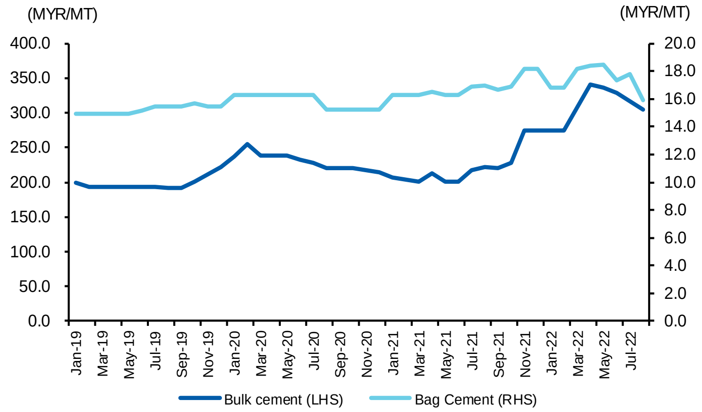
	China alumina production (MT'000)	MoM	China aluminium production (MT'000)	MoM	Alumina to Aluminium ratio
Jan-20	5,970.0	0.9%	3,087.0	1.4%	1.93
Feb-20	5,430.0	-9.0%	2,900.0	-6.1%	1.87
Mar-20	5,580.0	2.8%	3,065.0	5.7%	1.82
Apr-20	5,610.0	0.5%	2,993.0	-2.3%	1.87
May-20	5,870.0	4.6%	3,068.0	2.5%	1.91
Jun-20	5,780.0	-1.5%	3,028.0	-1.3%	1.91
Jul-20	5,960.0	3.1%	3,121.0	3.1%	1.91
Aug-20	6,130.0	2.9%	3,179.0	1.9%	1.93
Sep-20	6,050.0	-1.3%	3,139.0	-1.3%	1.93
Oct-20	6,330.0	4.6%	3,250.0	3.5%	1.95
Nov-20	6,100.0	-3.6%	3,207.0	-1.3%	1.90
Dec-20	6,200.0	1.6%	3,300.0	2.9%	1.88
Jan-21	6,250.0	0.8%	3,363.0	1.9%	1.86
Feb-21	5,690.0	-9.0%	3,048.0	-9.4%	1.87
Mar-21	6,410.0	12.7%	3,364.0	10.4%	1.91
Apr-21	6,300.0	-1.7%	3,257.0	-3.2%	1.93
May-21	6,560.0	4.1%	3,355.0	3.0%	1.96
Jun-21	6,510.0	-0.8%	3,215.0	-4.2%	2.02
Jul-21	6,350.0	-2.5%	3,327.0	3.5%	1.91
Aug-21	6,360.0	0.2%	3,289.0	-1.1%	1.93
Sep-21	6,180.0	-2.8%	3,151.0	-4.2%	1.96
Oct-21	6,159.0	-0.3%	3,270.0	3.8%	1.88
Nov-21	6,085.0	-1.2%	3,089.0	-5.5%	1.97
Dec-21	6,405.0	5.3%	3,109.0	0.6%	2.06
Jan-22	6,310.0	-1.5%	3,252.0	4.6%	1.94
Feb-22	5,210.0	-17.4%	2,980.0	-8.4%	1.75
Mar-22	6,280.0	20.5%	3,358.0	12.7%	1.87
Apr-22	6,390.0	1.8%	3,313.0	-1.3%	1.93
May-22	6,930.0	8.5%	3,444.0	4.0%	2.01
Jun-22	6,840.0	-1.3%	3,348.0	-2.8%	2.04
Jul-22	6,950.0	1.6%	3,497.0	4.5%	1.99

Source: International Aluminium Institute, RHB

Cement production. Monthly average cement production of 1.8m tonnes was higher than the pre-pandemic average of 1.6m tonnes as the sector saw a spike in demand following the full reopening of the economy. However, increasingly challenging operating conditions ie labour shortage and cost pressure since the second quarter has led to a downtrend in cement production. In July, monthly cement production stood at only 1.1m tonnes after peaking at 2.5m tonnes in February.

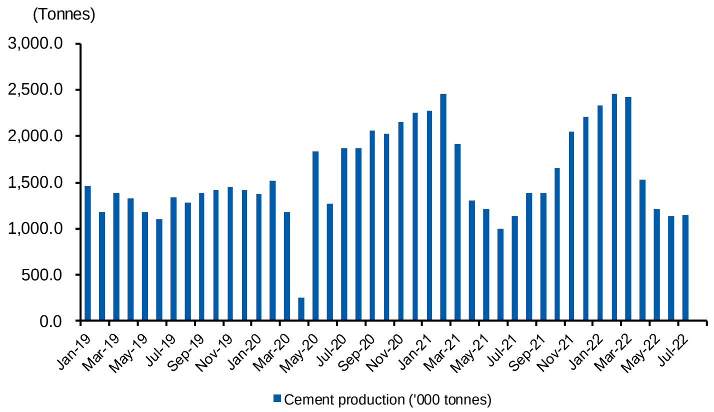
Cement ASP. Bulk cement prices have moderated 3% MoM to MYR295.50 per tonne, but remained higher than the pre-COVID-19 average ASP of MYR198 per tonne by 49%. Demand recovery has also been impeded by the persistent labour shortage, which may only improve in 2023 as foreign workers slowly return. We think that the revival of local infrastructure projects post-Budget 2023 and political stabilisation (ie post-elections) would be a near-term key sector catalyst moving forward. We raise our 2022F cement ASP by 7% for West Malaysia to MYR295 per tonne, while we raise our FY23F ASP for CMSB (East Malaysia) to MYR370 per tonne after taking into consideration of the 10% price hike in February.

Figure 7: Malaysia's bulk cement and bag cement ASP



Source: Bloomberg, RHB

Figure 8: Malaysia's cement production



Source: Bloomberg, RHB

Figure 9: Company sensitivity of FY23F earnings for every 1% strengthening in the USD

Company	FY23F impact
Press Metal	+2%
Cahya Mata Sarwawk	-2%
Malayan Cement	-6%

Source: RHB

Valuation. PMAH has been trading below its mean since May following the peak valuation of +0.7SD in early February. The re-rating factors are likely attributed to the hawkish stance from global central banks, and invasion of Russia on Ukraine in February. Despite this event sending LME aluminium prices to its peak of USD3,878 per tonne in March (or 38% above early January's level), PMAH's share price failed to rebound in tandem with LME aluminium prices. As such, we have adopted a relatively conservative approach on establishing the company's TP that implies -0.3SD from its mean.

For LMC, we adopt a 0.55x P/BV to its 2023F BVPS in our valuation whereas our SOP-derived TP for CMSB implies a 0.4x FY23F P/BV. The reason of a relatively lower P/BV multiple for CMSB is mainly due to the 13% ESG discount to our intrinsic value given concerns of the corporate governance surrounding the company. LMC is currently trading at 0.4x P/BV, or -1.3SD from its historical mean, whereas CMSB is trading at 0.3x P/BV, or -1.4SD from its historical mean.

14 October 2022

Basic Materials | Metals

Press Metal (PMAH MK)

Buy (Maintained)

Key Proxy Of Sustainable Aluminium Production

Target Price (Return):	MYR5.73 (+37%)
Price (Market Cap):	MYR4.19 (USD7,357m)
ESG score:	3.44 (out of 4)
Avg Daily Turnover (MYR/USD)	32.2m/7.12m

- **Reiterate BUY, with new MYR5.73 TP from MYR6.58, 37% upside and c.2% FY23F yield** We still like our sector Top Pick Press Metal for its capacity driven earnings upcycle (3-year forward earnings CAGR of 26% from 2021). This is supported by it being a key proxy of low carbon-producing aluminium smelters, global decarbonisation effort in limiting coal-based smelters, and current tight industry supply, while its proactive hedging policy should provide some ASP protection amid softness in London Metal Exchange (LME) prices. This report marks a transfer of coverage to Oong Chun Sung.
- **Tight inventory level.** LME inventory recorded 332,175 tonnes as at end-September from 939,200 tonnes at the beginning of the year – the low inventory level is likely attributed to the potential slowing down in demand (ie zero-COVID policy in China that has negatively impacted demand for aluminium) and production cut from the European region. Taking cue from August production numbers, global aluminium production recorded its fastest growth in 2022, at 3.8%. Nonetheless, we believe the current tight supply coincides with the supply cut from Eastern Europe (due to high input cost), while a potential ban on Russia's metals would continue to pose a threat towards the current tight inventory level, and in turn, be positive for aluminium prices.
- **LME aluminium prices.** LME aluminium prices plunged to a low of USD2,155/tonne from its peak of USD3,878/tonne in March, representing a 44% correction. We expect the near term softness of LME aluminium prices to be capped by the current industry tight supply despite expectations that the persistent hawkish tone by the US Federal Reserve will weigh in on LME prices in the near term.
- **ESG update.** In terms of the environmental aspect, PMAH undertook a business process lifecycle management under its environmental assessment. In 2021, its greenhouse gas (GHG) emission intensity (measure by CO_2 emission/tonne of aluminium produced) was 2.57 tonnes, below the global industry average of 11.5 tonnes, according to Aluminium Insider. We upgrade our "S" score given the group's commendable management of its occupational health and safety (resulting in two consecutive years of zero fatality) apart from its continuous effort in supporting work-life balance of its employees. We make no changes to our "G" score. All in, our ESG score is raised to 3.4 from 3.3.
- **Earnings revision and valuation.** We lower our spot LME aluminium price assumption for 2022 and 2023 to USD2,450 and USD2,300 from USD2,500 and USD2,550, while we expect the impact to be cushioned by the strengthening of USD/MYR. Every 1% appreciation in the USD should potentially lift our FY23F earnings by 2% We fine tune our 2022-2023 USD/MYR assumptions to 4.6 and 4.625. Our DCF-based TP of MYR5.73 incorporates a 9% ESG premium.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	7,476	10,995	14,498	14,924	14,990
Recurring net profit (MYRm)	466	1,001	1,828	1,956	2,001
Recurring net profit growth (%)	0.4	115.0	82.6	7.0	2.3
Recurring P/E (x)	72.67	33.80	18.51	17.30	16.91
P/B (x)	8.5	8.7	6.6	5.2	4.3
P/CF (x)	27.86	156.65	35.11	13.46	11.80
Dividend Yield (%)	0.5	0.8	1.6	1.7	1.8
EV/EBITDA (x)	32.01	20.43	13.13	12.29	11.47
Return on average equity (%)	12.0	25.5	40.5	33.5	27.7
Net debt to equity (%)	90.6	119.7	86.9	48.8	19.7

Source: Company data, RHB

Analyst

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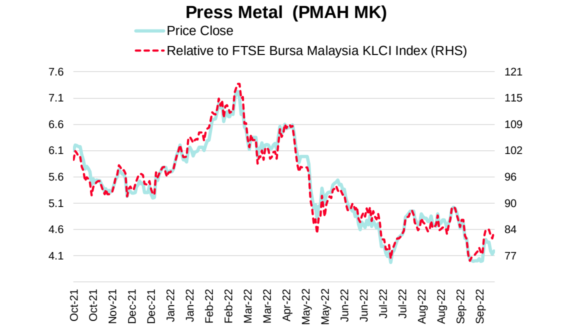
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(27.5)	(12.5)	2.7	(35.1)	(31.3)
Relative	(15.1)	(4.8)	5.4	(21.1)	(17.1)
52-wk Price low/high (MYR)					3.97 – 7.22



Source: Bloomberg

Overall ESG Score: 3.44 (out of 4)

E: EXCELLENT

Press Metal's carbon footprint ranks amongst the best in the global aluminium industry, thanks to access to hydropower, possibly boosting its long-term upside on the burgeoning market potential for low-carbon aluminium. The group has also committed itself to carbon neutrality targets by 2050

S: EXCELLENT

Recorded 2 consecutive year of zero workplace injuries and fatalities, thanks to its regular OHS (occupational health and safety) training apart from the company continuing effort in striking work-life balance for all employees.

G: EXCELLENT

Good levels of transparency afforded by the company's reporting framework and management's regular dialogue with the market. Sustainability reporting are prepared in line with GRI Standard.

Financial Exhibits

Asia
Malaysia
Basic Materials
Press Metal
PMAH MK
Buy

Valuation basis

SOP valuation (WACC 7.0%, LTg 2.5%) together with 6% ESG premium ascribed on calculated fair value

Key drivers

Press Metal's proven low-cost model helps to keep its smelters in the first quartile of the global production cost curve. Separately, the bottoming out of aluminium prices and weak MYR should directly boost bottomline.

Key risks

i. Plunge in aluminium prices and a sharp weakening of the USD may hurt profitability;
ii. Any interruption in power supply to its smelting plant may damage machinery and disrupt operations;
iii. COVID-19's prolonged incidence could undermine global economic growth and, consequently, primary aluminium demand.

Company Profile

Press Metal is a Malaysian-based aluminium company with an extensive global presence. The group has a downstream extrusion operation that is integrated with its greenfield aluminium smelting plants in Mukah and Samalaju in Sarawak, which have an annual combined capacity of 1,080,000 tonnes. The group also operates aluminium extrusion plants in Malaysia and China.

Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring EPS	0.06	0.12	0.23	0.24	0.25
DPS	0.02	0.03	0.07	0.07	0.07
BVPS	0.49	0.48	0.64	0.81	0.98
Return on average equity (%)	12.0	25.5	40.5	33.5	27.7

Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring P/E (x)	72.67	33.80	18.51	17.30	16.91
P/B (x)	8.5	8.7	6.6	5.2	4.3
FCF Yield (%)	0.6	(2.0)	2.0	6.8	7.9
Dividend Yield (%)	0.5	0.8	1.6	1.7	1.8
EV/EBITDA (x)	32.01	20.43	13.13	12.29	11.47
EV/EBIT (x)	47.05	25.81	15.62	14.62	13.64

Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover	7,476	10,995	14,498	14,924	14,990
Gross profit	1,118	2,061	3,166	3,268	3,326
EBITDA	1,191	1,927	3,014	3,100	3,163
Depreciation and amortisation	(381)	(402)	(482)	(494)	(503)
Operating profit	811	1,526	2,532	2,606	2,660
Net interest	(173)	(165)	(213)	(199)	(182)
Pre-tax profit	655	1,443	2,456	2,595	2,656
Taxation	(68)	(148)	(189)	(184)	(188)
Reported net profit	460	1,002	1,828	1,956	2,001
Recurring net profit	466	1,001	1,828	1,956	2,001

Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Change in working capital	190	(1,635)	(1,974)	(371)	(188)
Cash flow from operations	1,215	216	964	2,514	2,868
Capex	(1,019)	(882)	(300)	(200)	(180)
Cash flow from investing activities	(2,034)	(1,231)	(296)	(287)	(176)
Dividends paid	(175)	(275)	(548)	(587)	(600)
Cash flow from financing activities	880	697	(1,062)	(1,286)	(1,282)
Cash at beginning of period	364	692	459	278	1,418
Net change in cash	60	(318)	(394)	941	1,410
Ending balance cash	519	433	64	1,219	2,828

Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total cash and equivalents	692	459	278	1,418	3,009
Tangible fixed assets	6,448	7,109	6,927	6,633	6,310
Total investments	1,027	1,403	1,541	1,819	1,997
Total assets	11,934	14,211	15,449	16,787	18,244
Short-term debt	1,601	2,583	2,583	2,583	2,583
Total long-term debt	3,523	3,765	3,465	2,965	2,465
Total liabilities	7,045	9,291	8,809	8,324	7,913
Total equity	4,890	4,920	6,640	8,464	10,331
Total liabilities & equity	11,934	14,211	15,449	16,787	18,244

Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Revenue growth (%)	(15.1)	47.1	31.9	2.9	0.4
Recurrent EPS growth (%)	(0.1)	115.0	82.6	7.0	2.3
Gross margin (%)	14.9	18.7	21.8	21.9	22.2
Operating EBITDA margin (%)	15.9	17.5	20.8	20.8	21.1
Net profit margin (%)	6.2	9.1	12.6	13.1	13.3
Dividend payout ratio (%)	36.9	27.4	30.0	30.0	30.0
Capex/sales (%)	13.6	8.0	2.1	1.3	1.2
Interest cover (x)	4.47	8.93	11.67	12.84	14.34

Source: Company data, RHB

Figure 1: DCF valuation

FYE Dec (MYRm)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
NOPAT	**2,325**	**2,407**	**2,458**	**2,811**	**2,792**	**2,848**	**2,528**	**2,509**	**2,514**	**2,527**	
+ D&A	482	494	503	512	510	509	508	507	506	505	
- Change in NWC	(1,836)	(184)	(10)	49	(69)	(45)	(52)	(30)	(28)	(28)	
- CAPEX	(300)	(200)	(180)	(185)	(191)	(197)	(203)	(209)	(215)	(221)	
Free cash flow to firm (FCFF)	**671**	**2,517**	**2,771**	**3,186**	**3,043**	**3,116**	**2,781**	**2,777**	**2,777**	**2,782**	**59,964**
Discount factor	0.93	0.87	0.81	0.75	0.70	0.65	0.61	0.57	0.53	0.49	0.49
PV of FCFF	**625**	**2,183**	**2,238**	**2,396**	**2,131**	**2,032**	**1,689**	**1,571**	**1,463**	**1,365**	**29,414**

Risk-free	4.30%
WACC	7.4%
Terminal growth	2.40%
Enterprise Value (MYR m)	47,106
+ Cash	278
- Debt	-6,048
- MI	-1,486
+ 'JV/Associates	
JAA (20x FY22F P/E)	800
PMBT (PMAH 18% stakes)	818
Sunstone (20x FY22F P/E)	622
Equity Value (MYR m)	42,089
No of shares (m)	8,076
Instrinsic Value (MYR)	5.26
ESG discount/premium	0.47
Target Price	**5.73**

Source: RHB

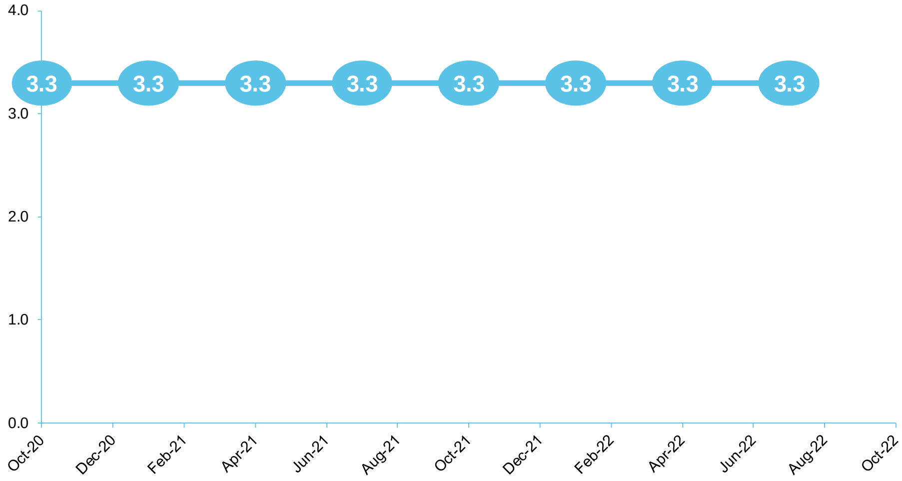
Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-08-26	Buy	6.6	4.7
2022-07-27	Buy	7.5	4.6
2022-05-31	Buy	7.9	5.5
2022-02-28	Buy	8.3	6.8
2021-11-29	Buy	8.5	5.2
2021-10-21	Buy	8.5	5.9
2021-08-26	Buy	8.0	5.4
2021-08-25	Buy	8.0	5.2
2021-08-06	Buy	8.0	4.9
2021-05-28	Buy	8.0	5.2
2021-05-25	Buy	8.0	5.2
2021-02-25	Buy	12.3	4.8
2020-12-02	Buy	8.5	3.7
2020-11-27	Buy	8.0	3.5
2020-11-12	Buy	7.1	3.0

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

14 October 2022

Basic Materials | Building Materials

Malayan Cement (LMC MK)

Buy (Maintained)

Full Potential Yet To Be Unlocked; Maintain BUY

Target Price (Return):	MYR2.45 (+27%)
Price (Market Cap):	MYR1.93 (USD539m)
ESG score:	3.00 (out of 4)
Avg Daily Turnover (MYR/USD)	0.21m/0.05m

- **Stay BUY, with new MYR2.45 TP from MYR3.30, 27% upside.** We remain optimistic on Malayan Cement's outlook from its improved operational efficiency and expanded market share in the local cement market post-YTL Cement Bhd consolidation. Key catalysts include improved cement demand pending execution of infrastructure works post-elections and gradual return of foreign labour. We lower our P/BV to 0.55x on CY23F BVPS from 1.0x to account for near-term headwinds and increased equity post consolidation. This report marks a transfer of coverage to Oong Chun Sung.
- **Cement demand.** In 1H22, monthly average cement production of 1.8m tonnes was higher than the pre-pandemic monthly average of 1.6m tonnes as the sector saw a spike in demand following the full reopening of the economy. However, increasingly challenging operating conditions ie labour shortage and cost pressure since the second quarter has led to a downtrend in cement production. In July, monthly cement production stood at only 1.1m tonnes after peaking at 2.5m tonnes in February.
- **Cement ASP.** Bulk cement prices have moderated 3% MoM to MYR295.50 per tonne, but remained higher than the pre-COVID-19 average ASP of MYR198 per tonne by 49%. Demand recovery has also been impeded by the persistent labour shortage, which may only improve in 2023 as foreign workers slowly return. We think that the revival of local infrastructure projects post-Budget 2023 and political stabilisation (ie post-elections) would be a near-term key sector catalyst moving forward.
- **ESG revisited.** We upgrade our "S" score for LMC given its firm emphasis on employee work health and safety – the company reported zero workplace fatalities in 2021. On its "G" criteria, we lower our score as we see a lack of further deliberation in terms of LMC's ESG disclosure and shareholder engagement. In our view, LMC's overall ESG disclosure was mostly aligned with YTL Corp (YTL MK, NR) but lacks further deliberation as compare to other operations of the parent. All in, we maintain our ESG score for LMC at 3.0.
- **Earnings revision and valuation.** We raise our 2022-2023 cement price assumption by 7% and 2% to MYR295/tonne and MYR280/tonne as cement players have raised prices amid inflationary pressure. We also raise our 2022-2023 coal cost assumption by 50% and 20% to factor in elevated coal prices following Russia's invasion on Ukraine and export ban imposed by the Indonesian Government. We lower our P/BV to 0.55x (-1.3SD from its mean) on CY23F BVPS from 1.0x to account for near-term headwinds. Our TP incorporates a 0% ESG discount/premium as LMC's ESG score is in line with the country median.

Analyst

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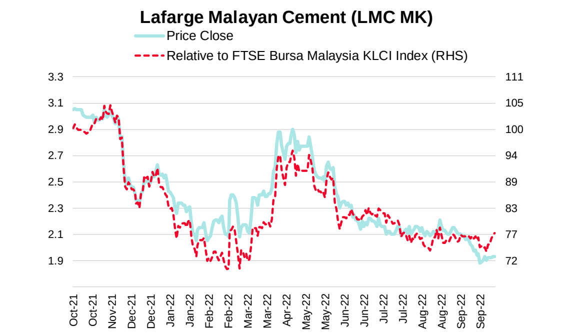
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(24.3)	(8.1)	(9.0)	(29.1)	(36.7)
Relative	(11.9)	(0.4)	(6.3)	(15.1)	(22.5)
52-wk Price low/high (MYR)					1.88 – 3.06



Source: Bloomberg

Forecasts and Valuation	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover (MYRm)	1,370	2,705	3,588	3,634	3,730
Recurring net profit (MYRm)	7	81	12	104	142
Recurring net profit growth (%)	-	1,072.6	(85.4)	777.1	36.8
Recurring P/E (x)	238.38	25.82	214.15	24.42	17.84
P/B (x)	0.7	0.4	0.4	0.4	0.4
P/CF (x)	20.44	8.48	6.92	11.13	6.08
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	9,432.69	13.02	22.35	14.86	12.60
Return on average equity (%)	(6.2)	2.0	0.2	1.8	2.4
Net debt to equity (%)	23.1	55.3	53.4	51.3	46.7

Source: Company data, RHB

Overall ESG Score: 3.00 (out of 4)

E: GOOD
LMC's commitment to environmental stewardship are largely aligned with YTL Corp. The company is committed to reduce its carbon footprint via improving energy efficiency, use of low carbon fuels and waste, adopting waste heat recovery for electricity generation as it aspires to achieve carbon neutral by 2050.

S: EXCELLENT
Has high commitment to ensure health and safety of employee. During 2021, LMC reported zero workplace and road fatalities which mainly credited to its effort of conducting 6,182hours of health & safety training to its employees and contractors.

G: GOOD
Adheres to Global Reporting Initiatives (GRI) sustainability standards. Regular disclosures made on its corporate actions undertaken with parent company.

Financial Exhibits

Asia
Malaysia
Basic Materials
Malayan Cement
LMC MK
Buy

Valuation basis

0.55x CY23F P/BV

Key drivers

i. Pick up in construction sector demand;
ii. Industry consolidation;
iii. Merger synergies.

Key risks

i. Broad economic slowdown;
ii. Raw material cost inflation;
iii. Pricing competition.

Company Profile

Malayan Cement is a producer of cement, concrete, and aggregates. The company's products are used in the residential and commercial building industry, and have various applications in infrastructure and oil and gas business segments. The cement business includes the production of Portland cement, specialty cement for building and infrastructure applications, mortars, low-carbon cements, and cement trading activities.

Financial summary (MYR)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Recurring EPS	0.01	0.07	0.01	0.08	0.11
BVPS	2.95	4.41	4.42	4.50	4.60
Return on average equity (%)	(6.2)	2.0	0.2	1.8	2.4

Valuation metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Recurring P/E (x)	238.38	25.82	214.15	24.42	17.84
P/B (x)	0.7	0.4	0.4	0.4	0.4
FCF Yield (%)	1.6	11.8	9.7	7.0	14.5
EV/EBITDA (x)	9,432.69	13.02	22.35	14.86	12.60
EV/EBIT (x)	na	20.74	45.13	22.70	18.23

Income statement (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover	1,370	2,705	3,588	3,634	3,730
Gross profit	160	694	530	661	724
EBITDA	0	359	246	363	408
Depreciation and amortisation	(134)	(134)	(124)	(125)	(126)
Operating profit	(133)	225	122	238	282
Net interest	(32)	(135)	(166)	(162)	(158)
Pre-tax profit	(148)	129	2	124	174
Taxation	(1)	(47)	11	(19)	(31)
Reported net profit	(148)	84	12	104	142
Recurring net profit	7	81	12	104	142

Cash flow (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Change in working capital	(44)	144	154	(69)	90
Cash flow from operations	81	247	365	227	416
Capex	(55)	0	(120)	(50)	(50)
Cash flow from investing activities	(37)	(1,629)	(116)	(46)	(45)
Cash flow from financing activities	14	1,850	(270)	(216)	(263)
Cash at beginning of period	77	62	212	217	230
Net change in cash	58	468	(20)	(35)	108
Ending balance cash	135	530	192	182	338

Balance sheet (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total cash and equivalents	135	604	609	622	730
Tangible fixed assets	1,372	3,025	2,994	2,916	2,838
Total investments	103	75	121	170	220
Total assets	3,762	10,426	10,612	10,674	10,711
Short-term debt	220	1,129	1,029	979	879
Total long-term debt	500	2,672	2,672	2,672	2,672
Total liabilities	1,227	4,647	4,819	4,776	4,670
Total equity	2,535	5,779	5,792	5,897	6,041
Total liabilities & equity	3,762	10,426	10,612	10,674	10,711

Key metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Revenue growth (%)	(15.0)	97.5	32.6	1.3	2.6
Recurrent EPS growth (%)	0.0	823.4	(87.9)	777.1	36.8
Gross margin (%)	11.7	25.6	14.8	18.2	19.4
Operating EBITDA margin (%)	0.0	13.3	6.9	10.0	10.9
Net profit margin (%)	(10.8)	3.1	0.3	2.9	3.8
Capex/sales (%)	4.0	0.0	3.3	1.4	1.3
Interest cover (x)	(3.39)	1.57	0.72	1.43	1.73

Source: Company data, RHB

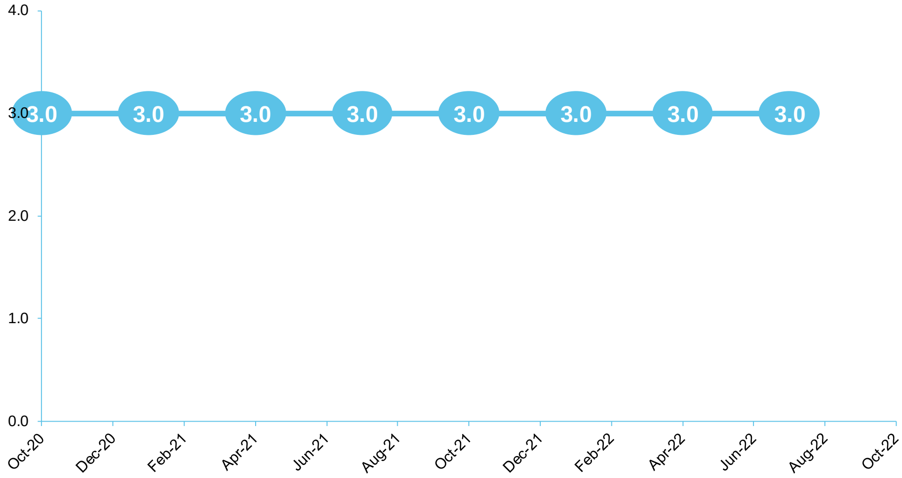
Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-05-27	Buy	3.30	2.46
2022-02-25	Buy	3.65	2.36
2021-12-20	Buy	3.70	2.50
2021-02-26	Buy	3.70	2.58
2020-11-27	Buy	3.75	2.45
2020-09-23	Buy	2.80	1.79
2020-08-31	Buy	2.85	1.82
2020-06-17	Buy	2.85	2.60
2020-04-20	Buy	3.00	2.40
2017-02-23	Sell	5.05	6.70

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

14 October 2022

Construction & Engineering | Construction

Cahya Mata Sarawak (CMS MK)

Buy (Maintained)

The Unshakable Cement Giant In Borneo; Stay BUY

Target Price (Return):	MYR1.02 (+25%)
Price (Market Cap):	MYR0.82 (USD187m)
ESG score:	2.33 (out of 4)
Avg Daily Turnover (MYR/USD)	1.29m/0.29m

- **Reiterate BUY, with new TP MYR1.02 TP from MYR1.40, 25% upside and c.4% FY23F yield.** After a better-than-expected 1H22, Cahya Mata Sarawak has embarked on improving cost and operating efficiency to sail through a challenging 2H22 amid rising raw material costs and labour shortage. We expect the ongoing/potential newly awarded infrastructure contracts in East Malaysia and relocation of Indonesia's capital city to East Kalimantan as key catalysts for the company. This report marks a transfer of coverage to Oong Chun Sung.
- **Cement demand.** In 1H22, monthly average cement production of 1.8m tonnes was higher than the pre-pandemic monthly average of 1.6m tonnes as the sector saw a spike in demand following the full reopening of the economy. However, increasingly challenging operating conditions ie labour shortage and cost pressure since the second quarter has led to a downtrend in cement production. In July, monthly cement production stood at only 1.1m tonnes after peaking at 2.5m tonnes in February.
- **Cement ASP.** Bulk cement prices have moderated 3% MoM to MYR295.50 per tonne, but remained higher than the pre-COVID-19 average ASP of MYR198 per tonne by 49%. Demand recovery has also been impeded by the persistent labour shortage, which may only improve in 2023 as foreign workers slowly return. We think that the revival of local infrastructure projects post-Budget 2023 and political stabilisation (ie post-elections) would be a near-term key sector catalyst moving forward.
- **ESG aspect.** Post review on CMSB's ESG factors, we maintain our "E" score owing to its renewable power sourcing for its phosphate plant. We downgrade our "S" score as a result of lack of disclosure in terms of workplace safety relatively to peers. Despite concluding its investigations on allegations of the financial irregularities, we still think the "G" criteria remains weak and should continue to be a key concern among investors. Overall, there has been a lack of further deliberation in terms of ESG disclosure after the company streamlined its sustainability reporting into its annual report as compared to a separate comprehensive report it did in 2020. All in, our ESG score is revised down to 2.3 from 2.4.
- **Earnings revision and valuation.** We raise our FY22 cement price assumption by 10% to MYR370, taking into consideration CMSB's ASP hike in February. We also raise our 2022-2023 coal cost assumption by 70% and 28% to factor in elevated coal prices following Russia's invasion on Ukraine and export ban imposed by the Indonesian Government. Our SOP-based TP MYR1.02 incorporates a 13% ESG discount to its intrinsic value.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	763	815	1,021	1,159	1,203
Recurring net profit (MYRm)	113	209	84	191	247
Recurring net profit growth (%)	(21.7)	85.0	(59.9)	127.9	29.3
Recurring P/E (x)	7.74	4.19	10.42	4.57	3.53
P/B (x)	0.3	0.3	0.3	0.3	0.3
P/CF (x)	11.94	2.93	na	4.26	3.42
Dividend Yield (%)	2.5	2.4	1.4	4.4	5.7
EV/EBITDA (x)	15.45	5.22	5.51	2.43	1.72
Return on average equity (%)	7.2	7.0	2.8	6.0	7.4
Net debt to equity (%)	8.1	net cash	1.0	net cash	net cash

Source: Company data, RHB

Analyst

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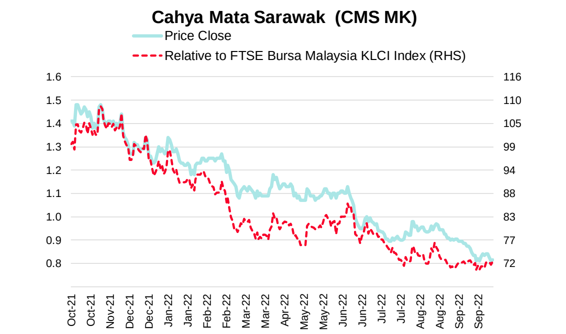
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(36.3)	(10.0)	(10.0)	(27.9)	(42.2)
Relative	(23.9)	(2.3)	(7.3)	(13.9)	(28.0)
52-wk Price low/high (MYR)					0.81 – 1.48



Source: Bloomberg

Overall ESG Score: 2.33 (out of 4)

E: GOOD

Cahya Mata Sarawak put in place various environmental metrics to improve its environmental footprint across business divisions.

S: GOOD

The company had committed to prevent workplace accidents and job-related injuries by upholding towards its occupational safety & health (OHS) policy. CMSB also upheld its townhall session with employees to keep them fully engaged and motivated via interaction with the senior management.

G: MODERATE

CMSB is committed to embark on Human Capital Transformation Programme to build strong culture of governance and strengthen the group accountability and integrity at senior management level.

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia
Malaysia
Construction & Engineering
Cahya Mata Sarawak
CMS MK
Buy

Valuation basis

Cahya Mata Sarawak is a conglomerate with businesses ranging from cement, road maintenance / construction to building materials trading and property development. It also has other strategic investments. As such, we value the company based on a SOP approach.

Key drivers

Government support for East Malaysia public infrastructure spending which should lead to pick up of cement demand.

Key risks

i. Weakening of MYR against USD;
ii. Delays or cancellation of Sarawak development projects;
iii. Corporate governance shake-ups

Company Profile

Cahya Mata Sarawak is the sole supplier of cement in Sarawak with a total capacity of 2.75m tonnes pa, previously running at c.60% of total capacity.

Cement demand is expected to be strong on the back of Pan-Borneo Highway Sarawak projects. In addition, the progressive rollout of the Sarawak Highway and Second Trunk Road projects, as well as the new Baleh Dam project would augur well for CMS.

Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring EPS	0.11	0.19	0.08	0.18	0.23
DPS	0.02	0.02	0.01	0.04	0.05
BVPS	2.60	2.80	2.88	3.02	3.20
Return on average equity (%)	7.2	7.0	2.8	6.0	7.4

Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring P/E (x)	7.74	4.19	10.42	4.57	3.53
P/B (x)	0.3	0.3	0.3	0.3	0.3
FCF Yield (%)	(23.1)	15.2	(13.6)	14.0	19.5
Dividend Yield (%)	2.5	2.4	1.4	4.4	5.7
EV/EBITDA (x)	15.45	5.22	5.51	2.43	1.72
EV/EBIT (x)	na	10.81	11.40	3.31	2.21

Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover	763	815	1,021	1,159	1,203
Gross profit	127	145	158	260	326
EBITDA	60	124	129	260	326
Depreciation and amortisation	(74)	(64)	(67)	(69)	(72)
Operating profit	(14)	60	63	190	254
Net interest	(29)	(26)	(52)	(51)	(50)
Pre-tax profit	6	235	88	231	304
Taxation	(23)	(30)	(3)	(39)	(57)
Reported net profit	195	204	84	191	247
Recurring net profit	113	209	84	191	247

Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Change in working capital	(53)	211	(165)	(16)	(13)
Cash flow from operations	73	299	(38)	205	256
Capex	(275)	(165)	(80)	(82)	(85)
Cash flow from investing activities	(353)	(51)	(26)	(18)	(87)
Dividends paid	(140)	(21)	(13)	(38)	(49)
Cash flow from financing activities	(59)	15	(85)	(109)	(118)
Cash at beginning of period	621	282	546	464	540
Net change in cash	(339)	262	(149)	77	51
Ending balance cash	282	545	397	542	592

Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total cash and equivalents	643	954	872	948	996
Tangible fixed assets	1,313	1,420	1,366	1,381	1,398
Total investments	1,366	1,441	1,464	1,491	1,591
Total assets	4,460	4,921	4,694	4,846	5,013
Short-term debt	59	630	620	610	600
Total long-term debt	829	295	285	275	265
Total liabilities	1,441	1,691	1,393	1,390	1,360
Total equity	3,020	3,230	3,302	3,455	3,654
Total liabilities & equity	4,460	4,921	4,694	4,846	5,013

Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Revenue growth (%)	(56.2)	6.8	25.3	13.6	3.8
Recurrent EPS growth (%)	(21.7)	84.7	(59.8)	127.9	29.3
Gross margin (%)	16.7	17.8	15.5	22.4	27.1
Operating EBITDA margin (%)	7.9	15.3	12.7	22.4	27.1
Net profit margin (%)	25.5	25.1	8.2	16.5	20.5
Dividend payout ratio (%)	11.0	10.5	15.0	20.0	20.0
Capex/sales (%)	36.1	20.3	7.8	7.1	7.1
Interest cover (x)	(0.45)	2.12	1.15	3.57	4.87

Source: Company data, RHB

Figure 1: SOP valuation

Business segment	Methodology	Multiple (x)	Total Value	Value per share	Description
Cement division	P/E	15	1,137	1.06	Based on FY23 estimates
Construction materials division	P/E	12	143	0.13	Based on FY23 estimates, 49% owned
Property division	RNAV		103	0.10	Based on 75% discount to RNAV
Construction & road maintenance	P/E	9	150	0.14	Based on FY23 estimates
KKB Engineering	Market cap		71	0.07	17.9% equity stake
Kenanga Investment Bank Bhd	Market cap		120	0.11	18.6% equity stake
Sacofa	P/E	8	335	0.31	Based on FY23 estimates
			2,059	1.92	
Net cash			62	0.06	Net cash
SOP valuation			**2,121**	**1.18**	40% SOP discount
Intrinsic value (MYR)				1.18	
ESG premium/(discount)		(13%)		(0.16)	
Target price				**1.02**	

Source: RHB

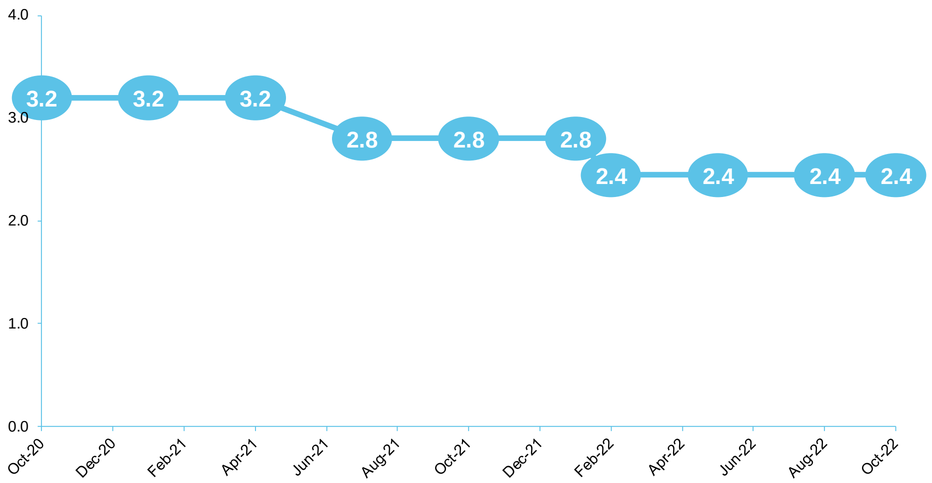
Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-07-21	Buy	1.40	0.91
2022-02-28	Buy	1.60	1.20
2021-11-24	Buy	1.70	1.40
2021-09-01	Neutral	1.20	1.34
2021-07-09	Neutral	1.10	1.11
2021-05-27	Neutral	1.70	1.68
2021-05-07	Buy	2.25	1.71
2021-02-26	Buy	2.90	2.32
2021-02-17	Buy	2.90	2.30
2020-12-07	Buy	2.40	1.88
2020-11-26	Buy	2.23	1.68
2020-08-27	Buy	2.17	1.51
2020-06-30	Buy	2.17	1.56
2020-06-19	Buy	2.17	1.61
2020-02-27	Buy	2.63	1.98

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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